

**REPORT OF THE AUDIT OF THE  
MONROE COUNTY  
SHERIFF'S SETTLEMENT - 2002 TAXES**

**June 19, 2003**



**EDWARD B. HATCHETT, JR.**  
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**EXECUTIVE SUMMARY**

**AUDIT EXAMINATION OF THE  
MONROE COUNTY  
SHERIFF'S SETTLEMENT - 2002 TAXES**

**June 19, 2003**

The Auditor of Public Accounts has completed the audit of the Sheriff's Settlement - 2002 Taxes for Monroe County Sheriff as of June 19, 2003. We have issued an unqualified opinion on the financial statement taken as a whole. Based upon the audit work performed, the financial statement is presented fairly in all material respects.

**Financial Condition:**

The Sheriff collected taxes of \$2,122,873 for the districts for 2002 taxes, retaining commissions of \$82,962 to operate the Sheriff's office. The Sheriff distributed taxes of \$2,036,862 to the districts for 2002 Taxes. Taxes of \$2,783 are due to the districts from the Sheriff and a refund of \$2 is due to the Sheriff from a taxing district.

**Report Comments:**

- The Sheriff Should Have Required Depository Institutions To Pledge Or Provide Additional Collateral Of \$32,164 To Protect Deposits
- Lacks Adequate Segregation Of Duties Over Receipts



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**AUDITOR OF PUBLIC ACCOUNTS**

To the People of Kentucky

Honorable Paul E. Patton, Governor

Gordon C. Duke, Secretary

Finance and Administration Cabinet

Dana Mayton, Secretary, Revenue Cabinet

Honorable Wilbur Graves, Monroe County Judge/Executive

Honorable Jerry Gee, Monroe County Sheriff

Members of the Monroe County Fiscal Court

Independent Auditor's Report

We have audited the Monroe County Sheriff's Settlement - 2002 Taxes as of June 19, 2003. This tax settlement is the responsibility of the Monroe County Sheriff. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for Sheriff's Tax Settlements issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the Sheriff's office prepares the financial statement on a prescribed basis of accounting that demonstrates compliance with the modified cash basis and laws of Kentucky, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the accompanying financial statement referred to above presents fairly, in all material respects, the Monroe County Sheriff's taxes charged, credited, and paid as of June 19, 2003, in conformity with the modified cash basis of accounting.



To the People of Kentucky  
Honorable Paul E. Patton, Governor  
Gordon C. Duke, Secretary  
Finance and Administration Cabinet  
Dana Mayton, Secretary, Revenue Cabinet  
Honorable Wilbur Graves, Monroe County Judge/Executive  
Honorable Jerry Gee, Monroe County Sheriff  
Members of the Monroe County Fiscal Court

In accordance with Government Auditing Standards, we have also issued our report dated July 23, 2003, on our consideration of the Sheriff's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

Based on the results of our audit, we present the accompanying comments and recommendations, included herein, which discusses the following report comments:

- The Sheriff Should Have Required Depository Institutions To Pledge Or Provide Additional Collateral Of \$32,164 To Protect Deposits
- Lacks Adequate Segregation Of Duties Over Receipts

Respectfully submitted,



Edward B. Hatchett, Jr.  
Auditor of Public Accounts

Audit fieldwork completed -  
July 23, 2003



MONROE COUNTY  
JERRY GEE, COUNTY SHERIFF  
SHERIFF'S SETTLEMENT - 2002 TAXES

June 19, 2003

| <u>Charges</u>                          | <u>County Taxes</u> | <u>Special<br/>Taxing Districts</u> | <u>School Taxes</u> | <u>State Taxes</u> |
|---|---------------------|-------------------------------------|---------------------|--------------------|
| Real Estate                             | \$ 195,600          | \$ 405,923                          | \$ 807,640          | \$ 283,936         |
| Tangible Personal Property              | 23,637              | 45,476                              | 88,712              | 81,664             |
| Intangible Personal Property            |                     |                                     |                     | 34,988             |
| Taxes Increased Through                 |                     |                                     |                     |                    |
| Erroneous Assessments                   | 195                 | 405                                 | 805                 | 283                |
| Franchise Corporation Taxes             | 29,224              | 58,774                              | 115,811             |                    |
| Oil and Gas Property Taxes              | 143                 | 292                                 | 588                 | 207                |
| Limestone, Sand, and Mineral Reserves   | 26                  | 113                                 | 109                 | 38                 |
| Penalties                               | 2,126               | 4,307                               | 8,558               | 3,951              |
| Adjusted to Sheriff's Receipt           | <u>1,657</u>        | <u>(92)</u>                         | <u>(208)</u>        | <u>(72)</u>        |
| Gross Chargeable to Sheriff             | <u>\$ 252,608</u>   | <u>\$ 515,198</u>                   | <u>\$ 1,022,015</u> | <u>\$ 404,995</u>  |
| <u>Credits</u>                          |                     |                                     |                     |                    |
| Exonerations                            | \$ 1,251            | \$ 2,595                            | \$ 5,162            | \$ 1,855           |
| Discounts                               | 3,068               | 6,280                               | 12,469              | 5,675              |
| Delinquents:                            |                     |                                     |                     |                    |
| Real Estate                             | 3,249               | 6,738                               | 13,407              | 4,714              |
| Tangible Personal Property              | 236                 | 469                                 | 914                 | 370                |
| Intangible Personal Property            |                     |                                     |                     | 240                |
| Uncollected Franchise Corporation Taxes | <u>458</u>          | <u>931</u>                          | <u>1,862</u>        |                    |
| Total Credits                           | <u>\$ 8,262</u>     | <u>\$ 17,013</u>                    | <u>\$ 33,814</u>    | <u>\$ 12,854</u>   |
| Taxes Collected                         | \$ 244,346          | \$ 498,185                          | \$ 988,201          | \$ 392,141         |
| Less: Commissions *                     | <u>10,672</u>       | <u>20,750</u>                       | <u>34,587</u>       | <u>16,953</u>      |
| Taxes Due                               | \$ 233,674          | \$ 477,435                          | \$ 953,614          | \$ 375,188         |
| Taxes Paid                              | 233,258             | 476,574                             | 951,887             | 375,143            |
| Refunds (Current and Prior Year)        | <u>31</u>           | <u>64</u>                           | <u>128</u>          | <u>45</u>          |
| Due Districts or (Refund Due Sheriff)   |                     | **                                  |                     |                    |
| as of Completion of Fieldwork           | <u>\$ 385</u>       | <u>\$ 797</u>                       | <u>\$ 1,599</u>     | <u>\$ 0</u>        |

The accompanying notes are an integral part of this financial statement.

MONROE COUNTY  
JERRY GEE, COUNTY SHERIFF  
SHERIFF'S SETTLEMENT - 2002 TAXES  
June 19, 2003  
(Continued)

\* Commissions:

|          |    |         |
|----------|----|---------|
| 10% on   | \$ | 10,000  |
| 4.25% on | \$ | 955,585 |
| 4% on    | \$ | 169,087 |
| 3.5% on  | \$ | 988,201 |

\*\* Special Taxing Districts:

|                            |    |            |
|----------------------------|----|------------|
| Library District           | \$ | 141        |
| Health District            |    | 165        |
| Extension District         |    | 153        |
| Soil Conservation District |    | 70         |
| Ambulance District         |    | 270        |
| City District              |    | <u>(2)</u> |

|                                       |    |            |
|---------------------------------------|----|------------|
| Due Districts or (Refund Due Sheriff) | \$ | <u>797</u> |
|---------------------------------------|----|------------|

The accompanying notes are an integral part of this financial statement.

MONROE COUNTY  
NOTES TO FINANCIAL STATEMENTS

June 19, 2003

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

The Sheriff's office tax collection duties are limited to acting as an agent for assessed property owners and taxing districts. A fund is used to account for the collection and distribution of taxes. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

B. Basis of Accounting

The financial statement has been prepared on a modified cash basis of accounting. Basis of accounting refers to when charges, credits, and taxes paid are reported in the settlement statement. It relates to the timing of measurements regardless of the measurement focus.

Charges are sources of revenue which are recognized in the tax period in which they become available and measurable. Credits are reductions of revenue which are recognized when there is proper authorization. Taxes paid are uses of revenue which are recognized when distributions are made to the taxing districts and others.

C. Cash and Investments

At the direction of the fiscal court, KRS 66.480 authorizes the Sheriff's office to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

Note 2. Deposits

The Sheriff maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC). According to KRS 66.480(1)(d) and KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the Sheriff and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution. The Sheriff entered into a written agreement with the depository institution and met requirements (a), (b), and (c) stated above. However, as of December 9, 2002, the collateral and FDIC insurance together did not equal or exceed the amount on deposit, leaving \$32,164 of public funds uninsured and unsecured.

MONROE COUNTY  
 NOTES TO FINANCIAL STATEMENT  
 June 19, 2003  
 (Continued)

Note 2. Deposits (Continued)

The county official's deposits are categorized below to give an indication of the level of risk assumed by the county official as of December 9, 2002.

|  | <u>Bank Balance</u>        |
|--|----------------------------|
| FDIC Insured   | \$ 100,000                 |
| Collateralized with securities held by the county official's agent in the county official's name | 1,350,000                  |
| Uncollateralized and uninsured   | <u>32,164</u>              |
| Total  | <u><u>\$ 1,482,164</u></u> |

Note 3. Tax Collection Period

The real and personal property tax assessments were levied as of January 1, 2002. Property taxes were billed to finance governmental services for the year ended June 30, 2003. Liens are effective when the tax bills become delinquent. The collection period for these assessments was October 17, 2002 through April 30, 2003.

Note 4. Interest Income

The Monroe County Sheriff earned \$1,545 as interest income on 2002 taxes. As of July 23, 2003, the Sheriff owes \$74 in interest to the school district and \$56 in interest to his fee account.

Note 5. Sheriff's 10% Add-On Fee

The Monroe County Sheriff collected \$14,133 of 10% add-on fees allowed by KRS 134.430(3). This amount will be used to operate the Sheriff's office. As of July 23, 2003, the Sheriff was due a refund of \$253 in 10% add-on fees from his fee account.

Note 6. Advertising Costs And Fees

The Monroe County Sheriff collected \$2,058 of advertising costs and \$1,515 of advertising fees allowed by KRS 424.330(1) and KRS 134.440(2). The Sheriff should distribute the advertising costs to the county as required by statute, and the advertising fees will be used to operate the Sheriff's office. As of July 23, 2003, the Sheriff owed \$2,058 in advertising costs to the county and \$1,515 in advertising fees to his fee account.

## COMMENTS AND RECOMMENDATIONS



MONROE COUNTY  
JERRY GEE, COUNTY SHERIFF  
COMMENTS AND RECOMMENDATIONS

June 19, 2003

STATE LAWS AND REGULATIONS:

The Sheriff Should Have Required Depository Institutions To Pledge Or Provide Additional Collateral Of \$32,164 To Protect Deposits

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On December 9, 2002, \$32,164 of the Sheriff's deposits of public funds in depository institutions were uninsured and unsecured. According to KRS 66.480(1)(d) and KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with Federal Deposit Insurance Corporation insurance, equals or exceeds the amount of public funds on deposit at all times. We recommend that the Sheriff require the depository institution to pledge or provide collateral in an amount sufficient to secure deposits of public funds at all times.

*Sheriff's Response:*

*None.*

INTERNAL CONTROL - REPORTABLE CONDITION AND MATERIAL WEAKNESS:

Lacks Adequate Segregation Of Duties Over Receipts

The Sheriff's office has a lack of segregation of duties over receipts. Due to the entity's diversity of official operations, small size and budget restrictions the official has limited options for establishing an adequate segregation of duties over receipts. We recommend that the following compensating controls be implemented to offset this internal control weakness:

- The Sheriff should periodically compare a daily bank deposit to the daily checkout sheet and then compare the daily checkout sheet to the receipts ledger. Any differences should be reconciled. He could document this by initialing the bank deposit, daily deposit, and receipts ledger.
- The Sheriff should compare the monthly tax reports to receipts ledger and disbursements ledger. Any differences should be reconciled. He could document this by initialing the monthly tax reports, receipts ledger, and disbursements ledger.
- The Sheriff should periodically recount and deposit cash. He could document this by initialing the bank deposit.
- The Sheriff should periodically compare the bank reconciliation to the balance in the checkbook. Any differences should be reconciled. The Sheriff could document this by initialing the bank reconciliation and the balance in the checkbook.

*Sheriff's Response:*

*None.*

MONROE COUNTY  
JERRY GEE, SHERIFF  
COMMENTS AND RECOMMENDATIONS  
June 19, 2003  
(Continued)

PRIOR YEAR:

The following comments were in the prior year audit report:

- The Sheriff Should Accurately Compute Advertising Costs
- The Sheriff Should Distribute 10% Add-On Fees, Advertising Fees, And Advertising Costs Monthly
- The Sheriff Should Distribute Interest Earned On Tax Collections Monthly
- The Sheriff's Office Has A Lack Of Segregation Of Duties

The first three comments were corrected, but the last comment has not been resolved.



REPORT ON COMPLIANCE  
AND ON INTERNAL CONTROL OVER FINANCIAL  
REPORTING BASED ON AN AUDIT OF THE FINANCIAL STATEMENT  
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS





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**Report On Compliance And On Internal Control  
Over Financial Reporting Based On An Audit Of The Financial  
Statement Performed In Accordance With Government Auditing Standards**

We have audited the Monroe County Sheriff's Settlement - 2002 Taxes as of June 19, 2003, and have issued our report thereon dated July 23, 2003. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the Monroe County Sheriff's Settlement - 2002 Taxes as of June 19, 2003 is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance that is required to be reported under Government Auditing Standards and which is described in the accompanying comments and recommendations.

- The Sheriff Should Have Required Depository Institutions To Pledge Or Provide Additional Collateral Of \$32,164 To Protect Deposits

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Monroe County Sheriff's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statement and not to provide assurance on the internal control over financial reporting. However, we noted a certain matter involving the internal control over financial reporting and its operation that we consider to be a reportable condition.



Report On Compliance And On Internal Control  
Over Financial Reporting Based On An Audit Of The Financial  
Statement Performed In Accordance With Government Auditing Standards  
(Continued)

Internal Control Over Financial Reporting (Continued)

Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the entity's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statement. A reportable condition is described in the accompanying comments and recommendations.

- Lacks Adequate Segregation Of Duties Over Receipts

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statement being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we consider the reportable condition described above to be a material weakness.

This report is intended solely for the information and use of management and is not intended to be and should not be used by anyone other than the specified party.

Respectfully submitted,



Edward B. Hatchett, Jr.  
Auditor of Public Accounts

Audit fieldwork completed -  
July 23, 2003

